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April 9, 1998

Honorable John M. McHugh  
Chairman  
Subcommittee on the Postal Service  
2 157 Rayburn House Office Building  
Washington, D.C. 20515-6143

Dear Chairman McHugh:

On behalf of the Association of American Publishers ("AAP"), I am responding to your February 27, 1998 request for comments pertaining to your proposed revisions to H.R. 22, the Postal Reform Act of 1997.

As you know, AAP is the national association of book publishers. It has over 200 members which encompass large and small publishing houses, as well as university, religious and non-profit publishers. AAP's members use all classes of mail, but particularly use Standard (B) or Fourth Class mail --- bound printed matter, special rate fourth and library rate -- to distribute books and other educational materials to the public. AAP members also publish journals which make use of Periodicals or Second Class mail. We actively participate in postal rate cases and other proceedings before the Postal Rate Commission in furtherance of our strong interest in an efficient and economically viable Postal Service.

Throughout this process, AAP has supported your efforts to reform the postal rate-making system. The current system is, in many ways, outdated as it does not adequately take into account today's competitive postal environment. Private carriers now compete directly with the Postal Service in the small package market, and alternate delivery methods such as E-Mail and faxes increasingly are used to deliver what previously would have been sent through the mail. In other respects, however, reliance upon the Postal Service has increased. Marketing through the Internet and World Wide Web has increased the volume of mail-orders, particularly with respect to books. Thus, reform of the postal system is needed not only to accommodate the changing needs of mailers, but also to ensure the continued ability of the Postal Service to provide competitive low-cost services to customers which rely upon it.

AAP continues to believe that H.R. 22 is an important step in this direction and commends the Chairman for moving to address the issue of reform in a straight-forward manner. Nonetheless, AAP has several significant concerns regarding the proposed revisions. First and foremost is our concern about the legislation's continued failure to adequately incorporate content

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as a criterion for ratemaking. In its current form the Postal Reorganization Act requires that the Postal Service consider the educational, scientific, cultural and informational value of the mail matter when establishing rates. Under the proposed revisions, this criterion would be considered for purposes of the baseline rate case, but not for purposes of establishing or changing adjustment factors in subsequent rate cycles. Thus, the proposed revisions solidify the transformation of the rate-setting process from one which takes into account content and other non-economic factors into a process which is based entirely upon economic considerations.

This approach has serious implications for publishers of books and journals which have long benefited from the requirement that the content of mail be considered when setting rates. Books, for instance, constitute an increasingly larger portion of mail in the Bound Printed Matter subclass. All indications are that this trend will continue. Yet, under the proposed legislation, once the baseline rate case is completed, books will be subject to the same rate consideration as all other items of mail. We continue to view this as a serious flaw in the legislation. The public interest goals of the Postal Service and, in particular, the importance to the public of the dissemination of books and other educational materials must not be lost as a consideration in guiding postal policy and rates.

Acknowledging that the proposed revisions envision a largely economic-based model of rate-making, AAP has several concerns with the model proposed. The proposed revisions attempt to limit future rate increases by requiring that the productivity adjustment factor be no more than zero. Nonetheless, the legislation would provide the Commission with discretion to set a positive adjustment factor if the Postal Service needs additional revenue to “maintain and continue the development of postal services of the kind and quality adapted to the needs of the United States.” This exception is vaguely worded and does not provide for a maximum amount by which the adjustment factor may be increased. It is likely that the Postal Service will consistently rely upon this exception as the basis for establishing a positive adjustment factor.

This same vaguely worded exception also provides the basis for the Postal Service to seek a rate increase due to “exigent circumstances.” AAP remains concerned that the existence of an “exigent circumstances” exception, particularly as set forth in the proposed revisions, will deprive mailers of the rate stability the legislation ostensibly seeks to provide. To the extent the Postal Service is provided with the ability to seek a rate increase due to exigent circumstances, AAP believes that the Postal Service should at least be required to meet a threshold showing that its revenues will not cover its expenses.

AAP also believes that the proposed revisions do not adequately address the need for negotiated service agreements for users of the non-competitive mail classes. Currently, the proposed revisions permit the Postal Service to negotiate volume discounts only for its competitive products. AAP believes that negotiated discounts could be instituted for users of non-competitive mail by requiring that such discounts be based on enhanced work-sharing and

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other cost-reducing requirements and provided that the prices negotiated cover attributable costs.

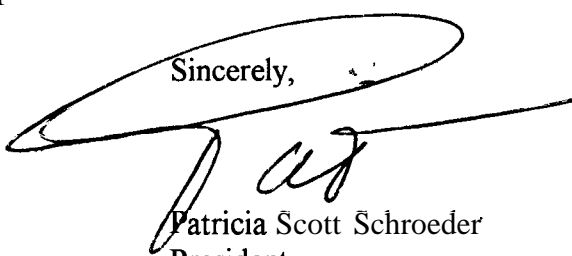
Other aspects of the proposed revisions raise issues that will need to be further explained to the mailing community. For example, the proposed revisions call for the creation of a for-profit private corporation to offer non-postal services and to engage in strategic alliances with other private companies. What is not clear, at this point, is exactly the type of services in which this corporation would engage. Further, in the event such a corporation is formed, it is AAP's view that no **funding** or subsidization for the corporation should come from the Postal Service.

Although AAP has several major concerns with the focus of this legislation, it commends your work in improving the legislation in several key areas. The 2-percent banding requirements for rate adjustments within a subclass are a substantial improvement over the original proposal that the Postal Service be allowed to depart from uniform rates for "further subordinate units." Adopting a banding requirement also will provide a means of limiting the amount of an adjustment and will provide for greater uniformity at the subclass level. Further, subjecting the Postal Service to the antitrust laws, as well as local zoning and land use laws, appears to be in the public interest, so long as such restrictions do not interfere with the Postal Service's ability to compete effectively.

Providing the Postal Rate Commission with final authority to determine the noncompetitive or competitive status of a product also provides a significant check on the ability of the Postal Service to improperly categorize postal products. In addition, the proposed complaint procedures establish important procedural safeguards which, among other things, would allow for a correction of rates set at unlawful levels. Finally, AAP supports the exemption for market tests from the price cap and competitive pricing constraints.

Ultimately, reform will only be achieved when the fundamental problems relating to labor costs and incentives to operate in a cost effective manner are solved. Certainly this is not an easy task, and AAP appreciates the efforts that you and the Subcommittee have taken to address these extremely difficult issues. AAP looks forward to continuing to assist the Subcommittee as it moves forward with this legislation and would welcome the opportunity to further discuss these and other issues with you and your staff

Sincerely,

  
Patricia Scott Schroeder  
President

*Hope  
Spring  
Break was  
Great!*